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T.R.A. DOCKET ROOM

July 24, 2003

HAND DELIVER

The Honorable Deborah Taylor Tate
Chairman
Tennessee Regulatory Authority
460 James Robertson Parkway
Nashville, Tennessee 37243-0505

**Re: Tennessee-American Water Company--Approval of Special Contract
with Walden's Ridge Utility District**

Dear Chairman Tate:

03-00452

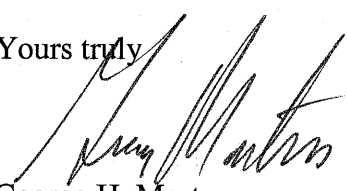
On behalf of our client, Tennessee-American Water Company, enclosed please find fourteen copies of a Water Purchase Agreement, dated July 14, 2003, between Tennessee-American Water Company and Walden's Ridge Utility District (the "Special Contract"). We are submitting the Special Contract for approval by the Directors of the Tennessee Regulatory Authority pursuant to TRA Rule 1220-4-1-.07. We hope that this matter can be placed on the TRA's next regular docket.

Also enclosed are ten copies of a resolution adopted by the commissioners of Walden's Ridge Utility District unanimously approving the Special Contract. As you will notice, Section IX of the Special Contract conditions its effectiveness upon TRA approval.

If you, the other Commissioners or any members of your staff have any questions concerning the Special Contract, please call my partner, Ted Pappas (742-6242) or me (742-6263).

Thank you.

Yours truly


George H. Masterson

GHM:ch
Enclosure

cc: J. Richard Collier, Esq.
Pat Murphy
William F. L'Ecuier
Coleman Bush
Dan Bailey
T. G. Pappas, Esq.

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WATER PURCHASE AGREEMENT

THIS AGREEMENT, made this 14th day of July, 2003 by and between
Tennessee-American Water Company ("Tennessee-American"), located at 1101 Broad
Street, Chattanooga, Tennessee

and

Walden's Ridge Utility District ("Walden's Ridge"), located at 3900 Taft Highway,
Signal Mountain, Tennessee

WHEREAS, Tennessee-American, a Tennessee corporation, is a public utility which
owns and operates a water utility system in and around the City of Chattanooga, Tennessee
including the contiguous cities of Red Bank, East Ridge, Ridgeside, and Lookout Mountain, plus
the cities of Rossville and Lookout Mountain, Georgia and areas in the Georgia counties of Dade,
Walker and Catoosa; and

WHEREAS, Walden's Ridge wishes to purchase all of its water supply from Tennessee-
American; and

WHEREAS, Tennessee-American has the capability to provide all of the water supply
currently required by Walden's Ridge and is willing to construct a water supply pipeline and
booster station, which will provide a sufficient volume of water in order to serve as WRUD's sole
source of supply; and

WHEREAS, Walden's Ridge and Tennessee-American are desirous of establishing an
Agreement for the purchase and sale of water for a fixed period of time; and

WHEREAS, the parties have reached an Agreement for the sale and purchase of water
which they now desire to record in writing;

NOW THEREFORE, in consideration of the mutual covenants contained herein and other good and valuable consideration the receipt and sufficiency of which is hereby acknowledged, the parties agree as follows:

SECTION I **EXCLUSIVE SUPPLIER**

Tennessee-American agrees to sell and Walden's Ridge agrees to buy, during the term of this Agreement and any extension hereof, all of the potable and raw water requirements of Walden's Ridge, as it now exists or may hereafter be expanded, in conformity with the provisions hereof.

SECTION II **CONSTRUCTION OF FACILITIES**

(A) Tennessee-American shall construct, at an estimated cost of \$2.4 million, a water supply pipeline and booster station from its existing distribution system to the Walden's Ridge water tank near Taft Highway, which will provide a sufficient volume of water in order to serve as Walden's Ridge sole source of supply. This water supply pipeline will be capable of delivering up to 2.9 million gallons of water per day at the top of the mountain. The estimated construction time, from the time of a final non-appealable order from the Tennessee Regulatory Authority ("TRA") granting approval of the project, until the connection to the system and delivery of water, is eighteen (18) months. In the event that the construction bid price exceeds \$2.4 million by 5% or more, Tennessee-American shall have the right to negotiate an adjustment in the price for the sale of water as provided in Section III hereof or terminate this Agreement.

(B) If any conditions or requirements are imposed by any regulatory authority, or court, which make this project economically unfeasible, Tennessee-American has the right to withdraw and terminate the Agreement.

(C) As part of this consideration, Walden's Ridge agrees that Tennessee-American will be the sole and exclusive supplier of potable and raw water to Walden's Ridge, as it now exists or

hereafter be changed, except as noted below in this Section, and that Walden's Ridge will not, without prior written consent of Tennessee-American, receive potable or raw water service from any person or entity (including Walden's Ridge and its own customers), for the period of time under the Agreement including any extensions or renewals. The parties agree that the approximately eighty (80) current Walden's Ridge customers in the Falling Water Community located on Levi Road, Ferry Road, Pickett Gulf Road, Levi Cemetery Road, Courtney Road and Godsey Road, will be an exception, which allows Walden's Ridge to seek an alternative source for these customers.

(D) In the event Walden's Ridge terminates the Agreement prior to the expiration of forty (40) years from the Date of Service, as defined below, or fails to renew the agreement for a period of time adequate to allow Tennessee-American an opportunity to recover its investment, or if Tennessee-American is no longer the sole and exclusive provider of potable and raw water to Walden's Ridge, or fails to pay Tennessee-American as provided herein, then Walden's Ridge, and its successors and assigns, agree to pay Tennessee-American, within thirty (30) days following such termination or event, the balance of the undepreciated costs, on a straight-line basis, of Tennessee-American's pipeline and all other facilities that are constructed to serve Walden's Ridge.

(E) Walden's Ridge will decommission and terminate its existing source of supply and treatment facilities upon completion of the Tennessee-American water supply pipeline extension and connection to the Walden's Ridge system and no later than ninety (90) days following the Date of Service, as defined below. As part of this consideration, and upon completion of the Tennessee-American water supply pipeline and booster station, Walden's Ridge agrees to exclusively lease to Tennessee-American, for a period of forty (40) years from the Date of Service as defined below, the 6" and 8" welded steel water supply lines, along with perpetual easements, from its Mountain Station at the end of Levi Cemetery Road to top of the mountain.

SECTION III **SALE OF WATER**

(A) The water from the Tennessee-American pipeline shall be provided to Walden's Ridge at a rate of \$1.25/1000 gallons, except for the pass-through cost as identified in Section III (B) herein, for the first three (3) years, beginning with the date that water service is first taken from these facilities ("Date of Service"). Any proposed change in the rate after this initial period will be accompanied by supporting data and computations, which will be based on industry accepted cost of service methodology. Walden's Ridge has the right to agree to this rate or to propose an alternative rate with the understanding that the TRA will be the ultimate authority in determining the rate.

(B) From the date this Agreement is executed and during the first three (3) years from the Date of Service under this Agreement, in the event that electric costs, which can be directly identified with this project, increase, Walden's Ridge agrees to meet with Tennessee-American to discuss an equitable pass-through of those cost increases if so requested by Tennessee-American.

(C) Walden's Ridge will permit Tennessee-American to use the Walden's Ridge distribution system as a conduit through which Tennessee-American may wheel water to other water utility districts and other customers as agreed to by the parties, which agreement by Walden's Ridge shall not be unreasonably withheld. The parties agree to meet within ninety (90) days after execution of this Agreement to define the territory that will be served by Walden's Ridge. The wheeling charge from Walden's Ridge to Tennessee-American shall be at a rate of \$.39/1000 gallons. This rate is guaranteed for three (3) years from the Date of Service. Any proposed change in the rate after this initial period will be accompanied by supporting data and computations, which will be based on industry accepted

cost of service methodology. Tennessee-American has the right, within ninety (90) days, to agree to this rate or to propose an alternative rate. If the Parties do not agree on the rate change, then the Parties will refer the matter to a neutral mediator. If mediation does not resolve the matter, either of the Parties may take the matter to the TRA, if applicable, or Utility Management Review Board or seek Judicial Review as necessary for resolution. As part of the consideration under this agreement, Tennessee-American shall have the right, at the cost specified above or at a rate that may change from time to time as agreed by the parties, even after termination of the agreement, to transfer water through Walden's Ridge facilities.

(D) Walden's Ridge will not be charged by Tennessee-American for any water supplied through its system that is transferred to other water utility districts and/or customers outside the Walden's Ridge service area. Tennessee-American shall install a meter or meters on the Walden's Ridge distribution system where appropriate in order to measure the volume of water that is transferred. Walden's Ridge will have reasonable access to such meters at all times.

SECTION IV **FLUORIDATION OF WATER SUPPLY**

Tennessee-American will fluoridate the water supply to Walden's Ridge, in accordance with the Tennessee Department of Environment and Conservation Rule 1200-5-1-17 (20), which requires the maintenance of a monthly average concentration of fluoride between 0.9 mg/l and 1.3 mg/l, unless required to do otherwise by applicable law or regulations.

SECTION V **OPERATIONAL REQUIREMENTS**

(A) In order to minimize utilization of the peaking capacity of Tennessee-American, Walden's Ridge will provide, by the Date of Service, adequate storage to provide for its own

maximum hour needs. Walden's Ridge shall maintain a minimum of one-day of water supply storage on its distribution system.

(B) Walden's Ridge agrees to cooperate with Tennessee-American in making improvements as needed to its distribution system in order to efficiently facilitate the wheeling of water through its system to other water utility district customers of Tennessee-American or other customers of Tennessee-American outside the Walden's Ridge service area. Any such improvements, which are deemed necessary by Tennessee-American to adequately wheel water through the Walden's Ridge system for the benefit of Tennessee-American, shall be done at Tennessee American's expense.

(C) Tennessee-American will conduct a one-time comprehensive leak survey along Walden's Ridge transmission mains that are located in Taft Highway between Walden's Ridge twin storage tanks (located at the old Walden's Ridge office) and the end of the line near Grandview subdivision. This leak survey will be at no cost to Walden's Ridge. However, Walden's Ridge will be responsible for uncovering and repairing any identified leaks. The purpose of the survey will be to identify and locate leaks to help Walden's Ridge reduce its unaccounted for water.

SECTION VI

CUSTOMERS AT BOTTOM OF MOUNTAIN

In the event that Walden's Ridge, at any time in the future, decides to divest itself of the approximately eighty (80) customers, and as that number of customers may change from time to time, at the base of the mountain near the Soddy-Daisy system, Tennessee-American will be granted the right of first refusal to purchase from Walden's Ridge the facilities necessary to serve these customers at a price not to exceed the actual, bona fide offer made to Walden's Ridge for the facilities.

SECTION VII **METERING**

Metering of the water sold under this Agreement shall be at the point where Tennessee-American's water supply pipeline is connected to the Walden's Ridge water tank near Taft Highway.

SECTION VIII **BILLING**

During its normal billing cycle each month, Tennessee-American will issue an invoice to Walden's Ridge for Walden's Ridge metered usage during the prior month. Payment of such invoice will be made by Walden's Ridge on or before eighteen (18) days after receipt of the invoice. Interest and penalties shall accrue on the unpaid balance at the rate and amounts provided in Tennessee-American's filed tariff for its customers.

SECTION IX **APPROVALS BY TENNESSEE REGULATORY AUTHORITY**

It is understood and agreed that this Agreement is conditioned on approval by the TRA. Promptly upon execution of this Agreement, Tennessee-American shall file an application for approval with the TRA and take such action in good faith as may be necessary to obtain the appropriate approval. Service provided hereunder will be pursuant to the rules and regulations of the TRA as may be changed from time to time during the term of this Agreement. Walden's Ridge agrees to provide all reasonable support for such regulatory approval.

SECTION X **TERM OF AGREEMENT**

The term of this Agreement shall be for a period of forty (40) years, beginning on the Date of Service. In consideration of the requirement for Walden's Ridge to have a

reliable source of supply at all times, if the Company should desire to terminate this Agreement after the Date of Service and prior to the end of the term, except for breach of this Agreement by Walden's Ridge, the Company will provide Walden's Ridge with three (3) years advance written notice of such desire to terminate.

SECTION XI **FORCE MAJEURE**

Neither Walden's Ridge or Tennessee-American shall be liable for damages to the other for any act, omission, or circumstance occasioned by or in consequence of strikes, lockouts, acts of the public enemy, wars, blockades, insurrections, riots, acts of terrorism, epidemics, landslides, lightning, earthquakes, fires, storms, floods, washouts, civil disturbances, explosions, breakage, or accident to machinery or lines of pipe, and any other cause, whether of the kind herein enumerated or otherwise, not reasonably within the control of the party claiming suspension and which by the exercise of due diligence such party is unable to prevent or overcome. Failure to prevent or settle any strike or strikes shall not be considered to be a matter within the control of the party claiming suspension. Such causes or contingencies affecting such performance shall not relieve Walden's Ridge from its obligation to make payment of amounts due hereunder.

SECTION XII **RENEWAL OF AGREEMENT**

This agreement may be renegotiated for additional periods of time beyond the term of this Agreement. Negotiations to extend the term of this Agreement shall commence no later than six (6) months prior to the expiration date of this Agreement.

However, the rates to be charged during any renewal period shall also be subject to prior approval by the Tennessee Regulatory Authority.

SECTION XIII **MISCELLANEOUS PROVISIONS**

(A) Assignment

This Agreement shall be binding on the successors and assigns of Tennessee-American. Upon obtaining written approval from Tennessee-American, which will not be unreasonably withheld, this Agreement may be assigned by Walden's Ridge to any successor in the operation of the distribution facilities currently owned by Walden's Ridge.

(B) Notices

Any notice required or permitted to be given by one of the parties to this Agreement shall be given by U.S. mail, personal delivery or by overnight carrier to the other party at the address set forth below:

Tennessee-American Water Company
1101 Broad Street
P. O. Box 6338,
Chattanooga, Tennessee 37377
Attn: President

Walden's Ridge Utility District
3900 Taft Highway
Signal Mountain, Tennessee 37377
Attn: General Manager

Any notice so given shall be deemed given upon its deposit in the U.S. mail, upon personal delivery or upon its delivery to the overnight carrier.

(C) Governing Law

This Agreement shall be governed by the laws of the State of Tennessee.

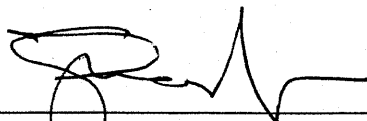
(D) Severability

In the event that any provision hereof is found to be invalid or unenforceable, such invalidity or unenforceability shall not impair or limit the validity or enforceability of any other provision hereof, each of which shall continue in full force and effect, and this Agreement shall be construed as if such invalid or unenforceable provisions were omitted from the Agreement.

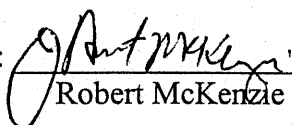
(E) Entire Agreement

This Agreement constitutes the entire Agreement between Walden's Ridge and Tennessee-American with respect to the subject matter contained in the Agreement, except that Walden's Ridge is subject to the rules, regulations and other applicable conditions and provisions set forth in Tennessee-American's tariff on file with the Tennessee Regulatory and as from time to time amended. This Agreement shall not be amended without the prior written consent of both parties. No modification of this Agreement or waiver of any of its terms and conditions will be effective unless set forth in a written document signed by both parties.

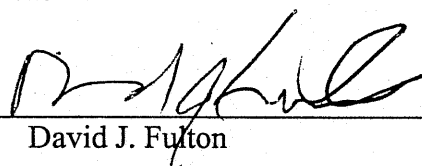
WALDEN'S RIDGE UTILITY DISTRICT

By: 
Frank Groves, Jr.

Its: President

By: 
Robert McKenzie

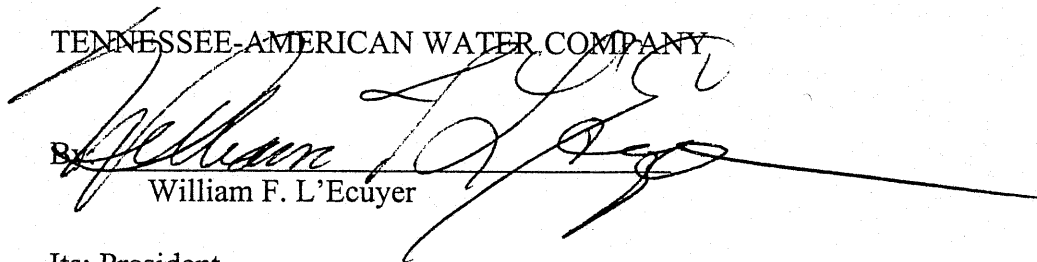
Its: Treasurer

By: 
David J. Fulton

Its: Secretary

District Seal Here

TENNESSEE-AMERICAN WATER COMPANY

By: 
William F. L'Ecuier

Its: President

ACKNOWLEDGEMENT
FOR WALDEN'S RIDGE UTILITY DISTRICT

STATE OF TENNESSEE)
)
COUNTY OF Hamilton)

The foregoing instrument was acknowledged before me this 14 day of July
_____, 2003, by **Frank Groves, Jr., as President** of Walden's Ridge Utility District.

My Commission expires: July 11, 2005
 Katherine Lonergan
NOTARY PUBLIC, Chattanooga, TN

STATE OF TENNESSEE)
)
COUNTY OF Hamilton)

The foregoing instrument was acknowledged before me this 14th day of July
_____, 2003, by **Robert McKenzie, as Treasurer** of Walden's Ridge Utility District.

My Commission expires: March 11, 2006
 Nancy H. King
NOTARY PUBLIC, Chattanooga, TN

STATE OF TENNESSEE)
)
COUNTY OF Hamilton)

The foregoing instrument was acknowledged before me this 14th day of July
_____, 2003, by **David J. Fulton, as Secretary** of Walden's Ridge Utility District.

My Commission expires: March 11, 2006
 Nancy H. King
NOTARY PUBLIC, Chattanooga, TN

ACKNOWLEDGEMENT
FOR TENNESSEE-AMERICAN WATER COMPANY

STATE OF TENNESSEE)
)
COUNTY OF Hamilton)

The foregoing instrument was acknowledged before me this 14th day of July
 , 2003, by **William F. L'Ecuier, as President**, of Tennessee-American Water Company.

My Commission expires: April 7, 2004

Virginia B. Seale
NOTARY PUBLIC, Chattanooga, TN

**RESOLUTION
of the
COMMISSIONERS
for the
WALDEN'S RIDGE UTILITY DISTRICT**

A resolution ratifying Tennessee -- American Water Company and
Walden's Ridge Utility District Contract for the Water Source Agreement

WHEREAS, Walden's Ridge Utility District deemed it necessary to seek a new source for water;

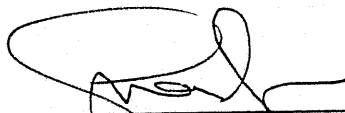
WHEREAS, WRUD considered all options available including drilling additional wells and plant expansion and purchase proposal from Soddy Daisy-Falling Water Utility, Hixson Utility District and Tennessee-American Water Company;

WHEREAS, after many years of researching all options available and an engineering cost analysis study, it has been decided to enter a purchase agreement with Tennessee-American Water Company;

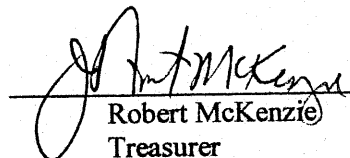
WHEREAS, with increased demand, our Board was faced with a large expenditure to modernize and expand our production facilities to meet new and more stringent governmental regulations. After much study, we found it more economical to purchase water from Tennessee-American Water Company.

NOW THEREFORE, BE IT RESOLVED BY THE COMMISSIONERS OF THE WALDEN'S RIDGE UTILITY DISTRICT:

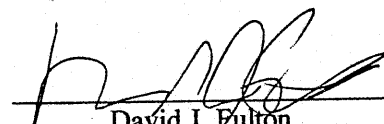
That contingent upon Tennessee-American Water Company signing the Water Purchase Agreement, this resolution shall take effect upon its passage, the public welfare requiring it and passage occurred this 22nd day of July 2003.



Frank Groves, Jr.
President



Robert McKenzie
Treasurer



David J. Fulton
Secretary